

PERU
DEVELOPMENT OF A SUSTAINABLE MARKET FOR SERVICES TO PROMOTE
EFFICIENT ENERGY PRODUCTION AND USE IN THE INDUSTRIAL SECTOR

(TC-98-11-01-4)

EXECUTIVE SUMMARY

Executing agency:	Sociedad Nacional de Minería, Petróleo y Energía [National Mining, Petroleum and Energy Association] (SNMPE)
Beneficiaries:	Energy users in the productive sectors, who will receive energy services, and small and medium-sized enterprises (SMEs) currently providing energy services or with the potential to do so. Approximately 30 SMEs have been identified as potential suppliers of such services in Peru.
Objectives:	<p>The general objective of this technical cooperation is to strengthen the market supply of energy services through the provision of technical and financial training and business development services. At the same time, the project will encourage demand for this type of services through promotional activities targeted at industries with the highest energy intensity indices.</p> <p>The specific objectives are: (i) to enhance the management capacity of energy service providers so they can develop, market and provide efficient and sustainable energy services; (ii) to strengthen the capacity of financial institutions to work with new financial and contractual arrangements for efficient energy production and use (EPU)¹ projects; (iii) to promote EPU among energy consumers; and (iv) to sponsor pilot projects to demonstrate the commercial, technical, financial and legal feasibility of EPU and to test the effectiveness of the tools developed in other components.</p>
Description:	This technical cooperation seeks to create a market for energy services through a strategy to strengthen the supply of, and stimulate the demand for, energy services in the Peruvian industrial sector, which has a relatively high energy intensity and is the principal consumer of electricity in the country and the second consumer of energy overall. It will help to improve the competitiveness and productivity of the

¹ Efficient energy production and use (EPU) implies the implementation of measures that reduce energy consumption in equipment, processes and facilities and the generation (production) of electric or thermal energy with higher efficiency indices and lower emissions.

country's industrial sector and allow it to meet domestic and external competition in the face of market globalization.

Energy services are those technical and commercial services which seek to reduce energy use and costs to users. These services are furnished by specialized companies, which perform assessments and devise measures to produce savings. They raise financing, install and maintain energy efficient equipment, and monitor and verify the savings produced.

The supply of energy services in support of EEPU projects has been limited by the lack of suitable business models for responding to existing market opportunities. Efforts are needed therefore to strengthen energy service providers, or create new ones, generally SMEs, by offering new techniques, ESCO²-type business models, and new financing formulas.

In terms of demand, there is a confirmed latent demand for energy services that has gone unmet because of a number of barriers, in particular the need for wider promotion and better access to financing for projects of this type. A major promotional effort for such services among industries and industry associations could enhance customer confidence and interest and therefore increase the demand for services.

To stimulate both the demand for services and the capacity to provide them, as well as to achieve the specific objectives proposed, this technical cooperation has four components: (1) training for energy service providers; (2) development of innovative financial mechanisms; (3) technical assistance for pilot projects; and (4) promotion of energy services.

The first component aims to strengthen the management capacity of SMEs providing energy services, while the second component will identify and develop financial instruments to improve access to SMEs financing. The remaining components are intended to strengthen demand through promotional activities and the launching of pilot projects to demonstrate the economic and environmental benefits of the EEPU approach.

Cost and financing:	MIF	US\$1,190,000
	Local counterpart:	<u>US\$ 800,000</u>
	Total:	US\$1,990,000

² "Energy Service Companies" (ESCO) undertake EEPU projects under contracts whereby they are remunerated in accordance with the energy savings they achieve.

Execution timetable:	Execution period:	36 months
	Disbursement period:	42 months

Environmental and social considerations: The components involving training and assistance for pilot projects will take occupational health and environmental aspects into account. As well, assistance for structuring pilot projects will include, where appropriate, the definition of environmental indicators. Establishing an energy services market will generate positive environmental impacts through an eventual drop in emissions of pollutants and greenhouse gases, thanks to greater efficiency in energy production and use and in the use of natural resources. Moreover, the EEPU projects are expected eventually to produce better management of productive inputs and therefore to reduce emission levels of industrial pollutants.

Special contractual clauses: Prior to the first disbursement, the project execution unit (PEU) must be fully operational within the SNMPE and the plan of activities for year one of execution must have been defined (paragraph 4.2).